

# Record Retention, Audits and Internal Control

# UCP Guide

A guide to determining the unclaimed property you need to track and report

**A**nually, all organizations are required to report unclaimed property to the Department of Revenue. Maintaining adequate internal controls and complete records is necessary to safeguard the unclaimed property and provide documentation in the event of an audit.

## Auditing

**T**he Department examines the records of financial institutions, insurance companies, and other businesses for compliance with the Uniform Unclaimed Property Act. An audit can consider the last six report years. Examinations may be assigned for a number of reasons. How an examination is selected is discussed later in this guide. Once an examination is assigned to an auditor, the following steps are followed:

Generally, a pre-audit letter is sent to the organization giving them an opportunity to review their reporting and submit any deficiencies voluntarily.

In the letter we offer to set up a visit to go over the law, records required, and typical property types.

The Department will begin its examination after the due date of the pre-audit letter. Depending on the action taken by the organization, this may only require a review of the procedures the organization used to verify its compliance. If a complete field audit is necessary, it can take many weeks. Each audit consists of the following stages.

### Opening Conference

The auditor contacts the business to arrange an opening

conference with the authorized organization representative at the organization's place of business. The business is encouraged to invite all interested parties to the opening conference.

At the opening conference, the time and place of the examination are agreed upon and any questions the participants may have are answered. The auditor also learns about the organization structure and the location of records. Usually, we will arrange an organization liaison, and outline the records needed to conduct the examination.

### On-site Work

The examination is conducted at the organization's place of business. The on-site work can last a few hours to several months depending on the size and type of organization and the availability of records. Based on the auditor's initial review, audit work may be limited in scope to selected property types or reporting periods.

If an organization has failed to report unclaimed property and did not maintain records necessary to prepare a report, the Department may estimate the amount required to be reported.

### Exit Conference

At the conclusion of the on-site work the auditor will present the preliminary findings at an exit conference. Often, additional research will be needed to answer questions.

The auditor will allow the organization a reasonable period of time to research and make refunds and make adjustments to the preliminary findings.

## Closing Conference

The auditor will schedule a closing conference to review the organization's refunds and proposed adjustments to the findings. If there is agreement, the organization sends a consolidated unclaimed property report and remittance for the audit period. After the report and remittance are received, the auditor will issue a Report of Examination pointing out the findings and indicating the organization is complying with the law. It may contain appropriate management advisory comments for future benefit.

## Charges, Interest & Penalties

The Department welcomes voluntary compliance. In most situations, we have limited authority to forgive charges, interest, and penalties provided in the law.

If we have evidence that an organization is not acting in good faith, the following charges, interest, and penalties may be considered.

Interest of 7% or more may be charged from the date that any unreported property was due until paid.

A minimum fee of \$120.00 per auditor, per day may be charged for each day of the on-site work.

A civil penalty of \$100 a day up to \$5,000 may be assessed for each day a report is willfully withheld or other duties are not performed. In addition, the penalty amount may include 100% of the value of the property not reported.

Finally, a person who willfully refuses a written demand to pay or deliver property, or enters into contracts to avoid the duties of this chapter, is guilty of a gross misdemeanor. If convicted, they may be subject to a maximum fine of \$1,000 and one year in jail.

## Appeal Procedures

If there is not agreement, either to the amount or application of the law, the auditor will issue a draft report and send a formal demand letter for the property in question. If the organization raises legal issues, they will need to explain their position to the Department in writing. If needed, the letter will be forwarded to our Assistant Attorney General for review.

If the organization and auditor are unable to reach agreement, a meeting is arranged with the organization, their legal counsel, and the Unclaimed Property Audit Manager.

If the disagreement remains unresolved, the Department may consider legal action. To do so, the Department must ask the Attorney General's Office to bring action in court.

## Common Errors Found in Audit

**D**uring our examinations, we sometimes find that an organization was unaware of the Uniform Unclaimed Property Act statute and/or that the Act applied to them. Even organizations that have undergone a previous unclaimed property audit, may have current personnel who are unfamiliar with the reporting responsibilities under the statute.

One way to continue the thread of information needed to ensure compliance is to book future unclaimed property to an unclaimed property liability account. Unclaimed items are more susceptible to embezzlement so this can be a useful internal control measure. Regardless, the liability should be placed on the books so it will not be easily missed.

## Need Help?

**O**ur outreach representatives are available to visit your organization to answer your questions about reporting unclaimed property. There is no charge for an educational visit. Not only will it help eliminate mistakes; it may reduce your chance of being selected for examinations.

## How Do We Choose Our Audits

**T**o the extent possible, the Department of Revenue has set up compliance procedures that encourage voluntary reporting rather than audits of non-reporters.

The following criteria are considered when selecting an organization for examination:

- Size and type of the organization;
- Whether the organization has consistently reported; and
- If a review of the unclaimed property reports show potentially missed property types or smaller volumes than expected.

Large organizations may expect an unclaimed property audit on a three to seven year cycle. Smaller organizations that file reports regularly and make efforts to understand how to comply are less likely to be examined.

## Internal Control

**A**bandoned property presents a strong temptation for embezzlement and fraud. Because the lost owner is unlikely to monitor his or her funds, adequate internal controls are needed to safeguard the

unclaimed property prior to reporting. Organizations sometimes shortcut the needed internal controls because the unclaimed property amounts are immaterial and they believe their normal internal controls are adequate. However, because the owner is missing, normal internal controls may not be sufficient to prevent embezzlement and fraud.

The lack of proper internal controls is the main reason most fraud occur.

To avoid this situation, set up a liability account to track unclaimed property until it becomes reportable. Make sure the procedures provide oversight control of transactions entering and exiting the liability account. This is sometimes referred to as dual control.

For example, most banks require two employee's approval for any transaction to an unclaimed property account. For most businesses, we recommend having a second person independently verify that the transactions to the account appear to be legitimate.

Having a second person approval on refunds or other transactions to unclaimed accounts will prevent potential employee manipulation. Another excellent control is segregation of duties. Separate the duties of tracking and reporting unclaimed property from issuing refund checks.

Ask your accountant or internal auditor to help design your internal control plan. They may want to periodically perform an internal control review. This usually involves a verification of the amounts held in your unclaimed property liability account back to the source records, and forward to the unclaimed property reports.

Each organization should assess its own risk and resources, and plan accordingly. Companies who fall victim to embezzlement often underestimated the risk or shortcut adequate internal controls in the name of efficiency.

## Record Retention

**R**CW 63.29 requires all organizations to keep copies of the unclaimed property reports and supporting detail for six years after the filing date.

If you sell traveler's checks, money orders or similar instruments, you must maintain a record of those instruments showing the state and date of issue for three years after you report. Insurance

companies should keep the following information whenever there is a change of beneficiary under a life, endowment policies or annuity contract: name, address and relationship to the insured of each beneficiary.

Other than the above, follow your normal record retention requirements.

As an audit trail and internal control measure, consider keeping documentation supporting any refund or adjustment to your unclaimed property liability account for at least five years.

### Serving the People of Washington

UCP GUIDES are published by the Department of Revenue, Unclaimed Property Section. Comments and questions should be addressed to Department of Revenue, Unclaimed Property, P.O. Box 448, Olympia, Washington 98507-0448. To request this document in an alternate format, please call (360) 486-2342. TTY users please call 1-800-451-7985.



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